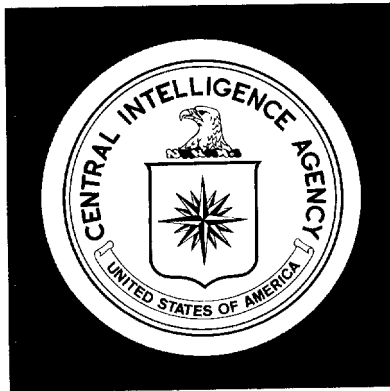


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Weekly Summary

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CONTENTS (January 9, 1976)

The WEEKLY SUMMARY, issued every Friday morning by the Office of Current Intelligence, reports and analyzes significant developments of the week through noon on Thursday. It frequently includes material coordinated with or prepared by the Office of Economic Research, the Office of Strategic Research, the Office of Geographic and Cartographic Research, and the Directorate of Science and Technology.

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Comments and queries on the contents of this publication are welcome. They may be directed to the editor of the Weekly Summary, [redacted]

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ANGOLA

The Popular Movement for the Liberation of Angola scored some significant military gains during the past week, especially in the northern battle zone against the National Front for the Liberation of Angola. The Front's losses could be politically damaging at the Organization of African Unity's emergency summit that is to begin in Addis Ababa on January 10.

Military Situation

Last weekend, Popular Movement forces, backed by Cuban-manned T-34 tanks and multiple rocket-launchers, captured Carmona (also known as Uige), the Front's second largest operational base in northern Angola. On the way, Movement troops took Negage, a former Portuguese air base that had been the Front's major supply point for operations in the northern sector.

In addition, Popular Movement forces advanced a little toward the National Front's main headquarters at Ambriz. On January 3, the small Popular Movement contingent that crossed the Lifune River earlier gained control of Tabi and Onzo. The Movement apparently has not yet crossed the river in strength because heavy rains and lack of equipment have delayed efforts to restore bridges destroyed by the National Front.

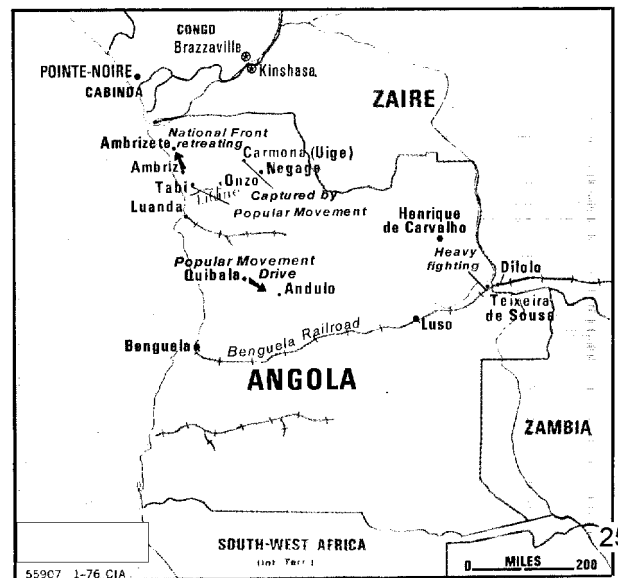
In west-central Angola, the Popular Movement has broken the siege of Quibala by the National Front and its ally, the National Union for the Total Independence of Angola. Popular Movement forces have mounted a drive to the Southeast. Their objective is the town of Andulo, a gateway to the heavily populated central highlands, where the National Union draws its tribal support.

In the east, neither side has made any notable gains recently, although heavy fighting between

the Popular Movement and the National Union has been taking place near Teixeira de Sousa for two weeks. Movement troops, in an apparent move to protect themselves from a possible attack from the east, have destroyed a railway bridge at Teixeira de Sousa, ensuring that a reopening of the important Benguela Railway is a long way off.

Political Developments

The loss of Carmona, a district capital within the area inhabited by the National Front's tribal supporters, is a major political as well as military setback for the National Front. The Popular Movement's propaganda machinery is heralding its capture as a blow against National Front "oppression" in the north. The Popular Movement will probably play heavily on this theme as it campaigns for recognition as the only legitimate Angolan nationalist organization at the OAU

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meetings that began with a preparatory foreign ministers' session on January 8.

The Popular Movement has strong support within the OAU, but its success at the summit is apparently not assured. During the past week announcements by Libya and Chad that they had recognized the Movement's government at Luanda raised to 19 the number of OAU members that have taken that action. A two-thirds majority of the organization's 46 members, however, is required to pass a resolution recognizing the Popular Movement. African states that are wary of the Movement and of Soviet intentions, led by Zaire and Zambia, are pushing hard behind the scenes to keep such a resolution from surfacing.

The participation of South African forces in the civil war in support of the National Union and National Front is certain to draw emotional denunciation at the meetings. Unless Pretoria and the allied Angolan groups are able to convince African leaders that South African troops are withdrawing, a number of uncommitted members—perhaps enough to give the Popular Movement majority support—may announce recognition of the Luanda regime during the conference.

Soviet Press Defends

4-6

The Soviet central press is continuing to give extremely heavy play to developments in Angola.

Signs of some possible new facets of Moscow's position on the civil war in Angola appeared in an unsigned *Pravda* commentary on January 3. The Soviets repeated their tough language on US, South African, and Chinese involvement in Angola and firmly defended the USSR's own role there as consistent with Soviet anticolonialist traditions, with UN and OAU resolutions on decolonization, and with the request of the "lawful government" of Angola.

Pravda went on, however, specifically to disclaim any Soviet interest in seeking military bases, economic gains, or other advantages in Angola. It repeated previous calls for the "termination of

foreign armed intervention," but left unstated the extent of Moscow's and its allies' current role in the war.

The Angolans, *Pravda* said, should be left to settle their futures themselves—if need be, by consolidating "patriotic and anti-imperialist forces" that favor "genuine independence and territorial integrity." This formulation seems to exclude at least the top leaders of the National Front and National Union, but leaves the way open for Moscow to approve a solution to the Angolan dispute that might be reached at the OAU summit this week. It is also obviously designed to deflect criticism from the USSR when the Africans convene to review the problem.

Izvestia, in a hard-hitting front page editorial three days later, seemed to try to quiet speculation that the *Pravda* article foreshadowed a major change in Soviet policy toward Angola. The editorial emphasized once again that there is no contradiction between Soviet support for the Popular Movement and detente and went on to state flatly that detente and the "struggle against racism and apartheid"—an obvious swipe at South African involvement in Angola—are perfectly compatible.

Izvestia reiterated Moscow's positive approach to OAU peace-making efforts, but tarred the National Front and National Union as "tools of imperialism" and reasserted that the USSR—and by implication Cuba—has a right to intervene in Angola. Although the editorial did not exclude the possibility of an eventual coalition regime in Angola or the cessation of Soviet—and Cuban—intervention, it offered little encouragement along either line.

No Pressure from Peking

10-14

Peking has registered disappointment with some third-world supporters of the Soviet-backed Popular Movement, but has apparently stopped short of any real arm-twisting. Within the past month Chinese officials have:

- differed publicly over Angola with visiting President da Costa of Sao Tome and

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Principe, whose government officially recognizes the Popular Movement;

- walked out on a reception for Popular Movement representatives hosted by Guyana's Prime Minister Burnham;

- privately expressed displeasure with the Tanzanian government over its support for the Popular Movement.

On the other hand, Vice Premier Li Hsien-nien and da Costa signed economic agreements several days after the two clashed verbally at da Costa's welcoming banquet. Moreover, Tanzania is the leading African recipient of Chinese aid, while Guyana is the only Latin American country with an active Chinese assistance program. There is no evidence that the Chinese have made any significant efforts to use this leverage either to persuade Burnham's government to stop refueling Cuban aircraft involved in the airlift to Angola or to dissuade Tanzanian President Nyerere from championing the Popular Movement's cause in the Organization of African Unity.

15-16; 19-21

MIDDLE EAST: UN DEBATE

On January 12 the UN Security Council will begin the debate on the Middle East that it scheduled last November, largely at Syria's behest. The Palestine Liberation Organization is expected to take advantage of its special invitation from the Council to participate fully. Arab strategy apparently calls for a relatively restrained approach, at least initially. Their goal is to make a persuasive case for Security Council recognition of Palestinian "national rights" and the participation of the PLO in any future Middle East peace negotiations. The Israelis, who continue to be adamantly opposed to any dealings with the PLO, plan to boycott the proceedings.

The Arab Approach

Syria and the PLO, which pushed some of the anti-Israeli resolutions passed in the last General Assembly session, appear to be casting about for a way to achieve their objective without forcing a US veto. Failing that, they may seek broad council support for a temperately worded resolution designed to emphasize US and Israeli isolation on the Palestinian question and create further strains between Washington and Tel Aviv on this issue.

One of Syrian President Asad's close political advisers indicated this week that Syria wished to demonstrate its willingness to seek a "constructive" approach to a peace settlement that included the PLO. His claim that Syria does not want to embarrass the US and is ready to explore "every possible avenue" suggests that the Syrians may be looking for the US to come up with an acceptable compromise proposal.

The Syrians may be willing to settle for a vaguely worded resolution if they believed it maintained the momentum of their efforts to promote PLO participation in the peace negotiations. The US statement last November underscoring the importance of the Palestinian problem and Washington's willingness to allow the PLO to participate in the Security Council debate have probably encouraged Damascus to believe that the idea of PLO participation is gaining greater tacit acceptance within the US government.

The PLO, which has probably coordinated its strategy to some extent with Damascus, may take a similar tack. Ideally, the PLO would like to see the council adopt a resolution calling for the return of Palestinians to their homeland and for the restoration of Palestinian national rights. Resolutions incorporating those points have been passed by the General Assembly. There have been indications, however, that PLO leaders would also like to avoid a sterile polemical debate and a US veto in the Security Council. Consequently, they may be receptive to some kind of compromise. The PLO's UN spokesman told an Egyptian newspaper this week that the group saw the

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debate as a means of educating US public opinion and would express its views in a "constructive, quiet way."

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Egypt, still at odds with Syria over the second Sinai accord, is concerned that an intransigent Arab position in the debate would be counter-productive and is counseling moderation in its contacts with PLO leaders. [redacted]

[redacted] The Egyptians believe that if the PLO and Syria give the impression of being interested only in putting pressure on Israel, the sole result will be to obstruct negotiating progress by stiffening Israeli resolve.

The Egyptians, in media commentary, have recently been advocating Arab flexibility as the



Foreign Minister Allon

best means of calling Israel's bluff, and they are fearful that a Syrian-Palestinian effort either to shift negotiations to a UN forum or to amend Security Council resolutions 242 and 338—accepted by Israel as a basis for negotiation—will in the end undermine Egypt's agreements with Israel. In an unusually forthright statement issued early this week, Fahmi announced that Cairo does not believe the Security Council can provide an alternative to the Geneva conference and will not go along with amendment of the two resolutions.

Israel's Position

Israel vigorously opposes holding the Security Council debate and particularly the expected participation of the PLO. The Israelis are looking to Washington to hold the line by vetoing any Arab-Soviet attempts to push through a resolution that could provide an opening for the inclusion of the Palestinians as separate participants in future Arab-Israeli negotiations.

Foreign Minister Allon's trip to Washington this week was specifically designed to coordinate tactics and nail down a US commitment to protect Israel's interests in the debate. The Israelis are reasonably confident that the US would veto any Arab-Soviet effort to change the essentials of resolutions 242 and 338, which Israel maintains are the sole basis for Arab-Israeli peace negotiations. They are much less confident that Washington would block an attempt—considered likely by Israel—to pass a moderately worded council resolution calling for consideration of the rights of the Palestinians. The Israelis contend that, as stated in Resolution 242, the Palestinian issue is a refugee problem, and they insist that it can only be solved in the context of negotiations with Jordan.

Hoping to take some of the steam out of the council debate and perhaps precipitate an inconclusive session, Israel has proposed a resumption of the Geneva conference to consider the possibility of an overall Arab-Israeli settlement. The PLO is not a party to the conference. [redacted]

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LEBANON: DOWNHILL AGAIN

Heavy fighting erupted this week in almost all Beirut suburbs following the collapse of negotiations to end the Christian blockade of two Palestinian refugee camps that began on January 4. The clashes are threatening to draw in large fedayeen units, which until now have stayed on the sidelines, and are likely to spread again to central Beirut and the hotel area. Meanwhile, the private negotiations among interested parties for a political solution to the Lebanese crisis have also reached an impasse.

The Palestinians believe that right-wing Christians are attempting to start a fight to embarrass the Palestine Liberation Organization on the eve of the Middle East debate in the UN Security Council next week and to force the council to focus on Lebanon. Palestinian and Syrian leaders are eager to forestall a resumption of heavy fighting. They realize that the prolonged strife has already played into the hands of the Israelis, who cite it as evidence that the PLO's professed goal of a "democratic secular state" in Palestine would not work.

The Phalanges Party militia alleges that trucks carrying food to the blockaded camps have also been bringing in arms. According to Amin Jumayyil, son of Phalangist leader Pierre Jumayyil, their militiamen will continue the blockade until the Palestinians withdraw from disputed residential and industrial areas and permit some 60,000 displaced Christians to return to their homes. Jumayyil charged that the Palestinians are working to divide Beirut in a way that would end the Christians' ability to travel from their strongholds in the city to larger Christian enclaves in the mountains north and east of the capital. In elaborating these charges, Amin Jumayyil acknowledged—as no other important Christian leader has—that the Christians have over the past several months lost control of much territory in north Beirut.

If the Christians do not lift their blockade, Fatah and Saiqa fedayeen units may for the first time enter the battle in force. Leaders of these

groups almost certainly consider that they cannot bow to the Phalangists' demands or permit the Christian militias to interdict access to the camps. The major fedayeen groups could, within days, commit as many as 4,000 to 5,000 troops to the fighting in Beirut. This would upset the rough balance of Muslim and Christian military strength that has prevailed over the past several months. The balance could not be redressed by involvement of the Lebanese army, which probably has no more than 2,000 additional troops available for security duty.

Palestinian forces so far have concentrated on heavy shelling from one of the blockaded camps into adjoining Christian areas and on attacking the predominantly Christian Horsh Thabet district that controls important routes to the camps. Less intense clashes have occurred throughout the mixture of Christian and Muslim neighborhoods east of the Beirut River. The Palestinians are threatening also to blockade a large Christian district in central Beirut.

With the resurgence of fighting, normal political activity has again come to a halt. The cabinet failed to hold its weekly meeting on January 7, and Prime Minister Karami's "higher coordination committee"—the only institution that has regularly brought leaders of the warring factions together—was boycotted by leftists and Palestinians protesting the Christian blockade.

The negotiations among the Christians, Muslims, and Syrians on political issues underlying the protracted crisis also settled into a deadlock this week. The Christians acknowledge that their position has hardened, but claim that the next move is up to the Muslims and Syrians. The Christians allege that Karami has been unable to secure general Muslim backing for a list of specific reform proposals he promised President Frangiyah and that Damascus is refusing to accept a Christian proposal that any comprehensive agreement be guaranteed by an international police force that includes Saudis and Kuwaitis as well as Syrians.

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Indira Gandhi

24-26

INDIA: PRESSING AHEAD

Prime Minister Indira Gandhi, speaking at her Congress Party's national conference last week, made clear her determination to reshape the country's political and economic life and to brook no opposition while doing it. To facilitate her task, she extended for an indefinite period the state of emergency proclaimed last June and apparently will postpone for at least a year the national elections that were due in March.

At the conference, Gandhi once again demonstrated her complete domination of the Congress Party, receiving its unanimous support for the extension of the emergency and deferral of elections. Other resolutions passed by the compliant delegates strongly indicated that the Prime Minister is planning major changes in the country's 26-year-old constitution and that she intends to pursue the economic program she introduced last July to win popular support for the emergency.

To justify extending the emergency, Gandhi professed to see the Indian political system still threatened by internal and external "forces of destabilization." She maintained that extremist political organizations continue to represent a danger that must be eliminated. Gandhi produced no specific evidence of foreign interference in India, but it was clear she was accusing Western nations, particularly the US, as well as Pakistan and China. Charges against Washington reflect her long-standing personal bias and her acute sensitivity to foreign criticism of her crackdown last summer. They are also another instance of her use of foreign scapegoats to justify controversial political moves at home.

So far, Gandhi has not revealed any details of the constitutional changes she intends to sponsor. Her plans may be presented to the current session of parliament, which is scheduled to end on January 31. An unofficial proposal circulating in New Delhi—and reported in the censored press—calls for a switch from the present parliamentary system to a presidential form of government headed by a strong chief executive elected by direct popular vote. The plan also advocates establishment of a "superior council of the judiciary" composed of government officials and presidential nominees who would assume the power the Supreme Court now has to review constitutional amendments and other legislation.

Gandhi is particularly anxious to weaken the judiciary. Her administration is locked in a power struggle with the courts that can probably be resolved only by basic changes in the constitution. The conflict revolves around recent legislation shelving fundamental individual rights while the emergency is in force. State courts have handed down decisions against the government in cases involving freedom of assembly, habeas corpus, and the freedom of the press. The lower courts' right to rule on such issues is currently under review by the Supreme Court, at the request of the government.

The Congress Party's two-thirds majority in parliament ensures quick approval of the measures Gandhi wants passed. Furthermore, as

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long as the emergency remains in force parliament can legally prolong its own life for a year at a time by a majority vote. Twenty-two presidential ordinances that Gandhi's government originated since the last parliamentary session in August are due for early ratification. These include sharp restrictions on the press, such as the lifting of legal immunity on coverage of parliamentary proceedings and harsh penalties for reporting considered objectionable by the government. The government will probably also introduce measures designed to limit further the opposition's right to participate in parliamentary business.

The small and splintered opposition parties are again talking about uniting in a single national organization. The opposition, however, suffers from a lack of experienced and dynamic leadership since most of its prominent leaders were arrested shortly after the emergency went into effect and are still in jail. [REDACTED]

question Aref's shaky leadership. Anti-Aref groups in the territory are already demanding an important role in the negotiations with Paris. They are particularly concerned about plans for elections; if refused a role, they might attempt to oust Aref. He was the target of an assassination attempt early last month.

The likelihood of trouble in the territory during the next few months is enhanced by the fact that no leader—including Aref—can speak for a majority of its populations. There is a fundamental conflict between the Afars and the Issas, the two major ethnic groups, and factional splits exist within each group.

Military Force Supported

Aref supports the French decision to maintain a military force in Djibouti. He realizes his opponents will use this against him, but he believes the French force is necessary to ensure the territory's security against threats from Somalia. Although Mogadiscio has given lip service to the concept of independence for the territory, Presi-

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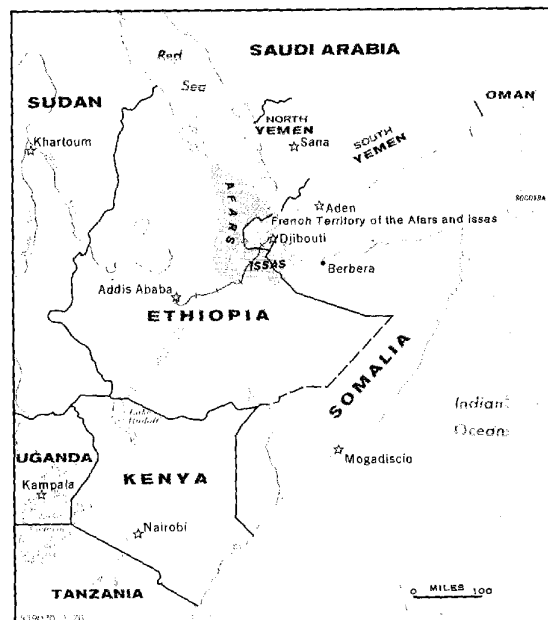
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Independence Bound

Paris announced on December 31 that it will grant independence to the French Territory of Afars and Issas, but intends to retain its military base at Djibouti. The process of decolonizing the last French foothold on the African continent, which Paris hopes to complete by June, could trigger serious internal unrest and intensify foreign competition for influence in the territory.

The announcement was made after a meeting in Paris between President Giscard and Ali Aref Bourhan, the president of the territory's local governing council. After years of defending French control, Aref in early 1975 came out for independence. He has been careful, however, to orchestrate his position with that of the French.

The specifics of the transfer of power are still to be negotiated. Paris presumably will try to avoid any arrangements that might throw into



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dent Siad's government hopes to incorporate it into Somalia; the Issas are ethnic Somalis.

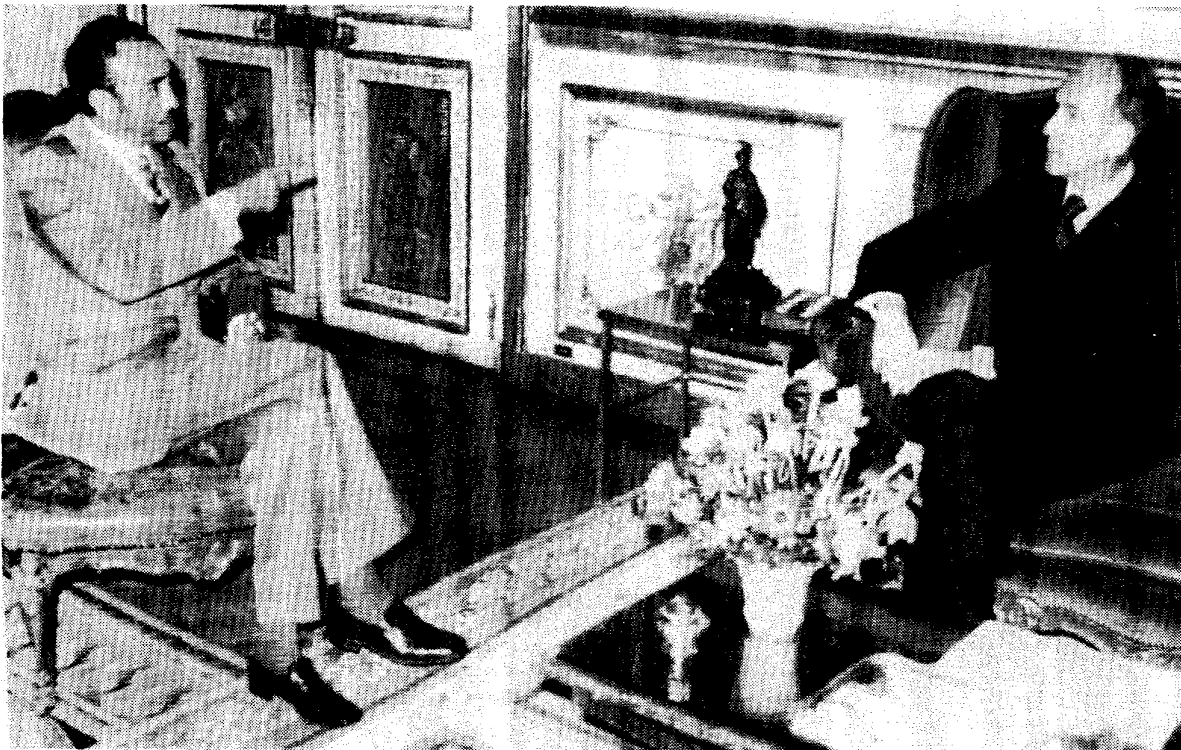
France has pledged to guarantee the integrity and security of an independent territory. Paris, however, does not want to be alone in this role and has stated its intention to seek additional guarantors from international and regional organizations and among the states bordering the Red Sea.

Somalia has rejected the French plans for a military presence, charging that the territory would not be truly independent if France retains its military base. The Somalis have also made it clear that an independent government led by Aref would be unacceptable to them. Somalia may back up its denunciations by increasing its

support to the African People's Independence League, an opposition party that Mogadiscio claims is the territory's authentic nationalist movement. The Siad regime might use the League or the smaller Front for the Liberation of the Somali Coast to foment subversion or back guerrilla incursions into the territory. The Front is an Issa group, headquartered in Mogadiscio, that cooperates with the League.

Ethiopia, which is anxious that the territory not fall under Somali control, last year renounced its own claims to it and is working closely with Aref. Addis Ababa would consider a new government that was either pro-Somali or sympathetic to the Afar rebels in eastern Ethiopia a direct threat to Ethiopia's national interests. The vital rail route from Addis Ababa to the Red Sea ends at Djibouti.

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Ali Aref Bourhan (l) at recent meeting with President Giscard

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MOROCCO SEIZES SOVIET SHIP

30-31; 33; 35-36

The Soviet fishing trawler Sapphir continues to be held at the Moroccan port of Agadir. The Moroccan navy stopped the ship over a week ago off Cape Rhir, some 10 miles northwest of Agadir.

Local press stories continue to vary on the reason for the seizure of the ship. Most evidence suggests that Rabat believed the ship was involved in running arms to the Polisario Front, a Saharan independence movement backed by Algeria. The US embassy in Rabat reports that the Moroccans boarded the ship during the night of January 6, but found only fish. US embassy officials presume the boarding and search were conducted with the Soviet captain's approval and expect the ship to be released shortly.

The Soviet embassy in Rabat has issued a low-keyed denial of Moroccan press allegations that the Sapphir carried a load of weapons and had three Algerian officers on board, as both sides continue to minimize the incident. The US embassy in Rabat nevertheless believes the incident should be a signal to the Soviets that they must tread lightly with the Moroccans, who are hypersensitive to the possibility that the Saharan guerrillas are being reinforced from the sea. In mid-December Polisario troops fighting with the Mauritians for the Saharan border town of Guera reportedly were resupplied by ships the Moroccans claimed were Algerian or Soviet. As a result of this alleged aid, Rabat reportedly sent a unit to Guera in order to help Nouakchott dislodge the guerrillas.

Rabat's frustration with the Polisario Front is likely to continue as long as guerrilla forces harass Moroccan troops in Spanish Sahara and inside Morocco. The latest incident, according to press reports, occurred on January 3 when Polisario guerrillas ambushed a Moroccan supply column about 20 miles south of the border near Daora on the road from Tan Tan to El Aaiun.

Meanwhile, the US embassy in Nouakchott reports that Mauritanian troops are continuing their movement northward into Spanish Sahara.



Thus far, Mauritanian forces have met little resistance, but both Spanish and US officials expect them to encounter more serious fighting as they approach Villa Cisneros. Morocco has not revealed its own plans for the town, however, and may insist upon joint occupation.

The Spanish charge in Nouakchott said that all Spanish military forces were to be withdrawn from Villa Cisneros and the rest of Spanish Sahara by January 9. He added that although the Spanish promised the Mauritians they would turn over the town's administrative apparatus to them if they arrived prior to the Spanish departure, Spanish forces would not wait around. US officials in Nouakchott believe that Mauritanian forces will not reach Villa Cisneros in time, and that it is possible they will find the town occupied by Polisario forces. Moroccan troops, however, may attempt to occupy the town first.

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SPAIN: WAGE AND AMNESTY DEMANDS

The Spanish government's new policy of restraint in dealing with protests is being strained by illegal strikes over wages and by demands for further amnesty for political prisoners. The most serious strike thus far is a work stoppage by subway workers that tied up Madrid this week.

Shortly after his appointment as interior minister, Manuel Fraga Iribarne—an advocate of gradual political liberalization—took steps to control police excesses in dealing with demonstrators. He announced that "peaceful opposition" would be tolerated, but "violent opposition" would not. As a result, the government in recent weeks has shown greater leniency toward strikers and demonstrators demanding greater amnesty for political prisoners. Most strikes are still illegal, however, despite the limited right to strike included in the labor law issued last May. The law's cumbersome procedures, which prescribe various mediation and conciliation measures and a five-day notice of a strike, have been ignored for the most part.

The government's policy of restraint was put to its most severe test when Madrid subway workers, demanding higher wages, walked off the job on January 5, disrupting the capital's already inadequate transportation system. Police used tear gas to evict the strikers from a terminal building and later from two churches, but refrained from the more heavy-handed measures familiar under the Franco regime. Following an extraordinary cabinet meeting the second day of the stoppage, the government issued a communique warning that it could be forced to intervene, mentioning military mobilization of workers as a last resort. On Wednesday the government sent troops to operate the principal subway line. Negotiations with the workers are expected to continue.

The subway strike and recent work stoppages elsewhere in Spain may be just a taste of what is to come. Labor agitation and strikes are expected to increase during the next few months as workers in many industries strive for pay increases in new labor contracts now being negotiated throughout Spain. Prime Minister Arias' government is pledg-

ed to oppose large pay hikes as part of its program to curb the country's high inflation rate, and its handling of the subway workers' wage demands will be a test of its commitment to that program.

Meanwhile, the government's stand on amnesty is continuing to draw fire. Interior Minister Fraga's announcement on December 31 that the government will go slow in granting any pardons beyond those decreed by King Juan Carlos in late November has provoked anger and disappointment. In addition to widespread demonstrations, several town and provincial councils have passed motions calling for a far-reaching amnesty, and petitions from various influential groups have been sent to the government. The Spanish Bishops' Conference issued a declaration on social justice on December 22 that also called for an amnesty for all political prisoners and all political exiles.

In defense of the government's amnesty program, the information minister announced late last month that 528 political prisoners—almost 50 percent of the official total in that category—have been freed under the partial amnesty decreed by the King in November. Altogether, 6,370 prisoners have been released, the minister said, leaving 9,171 behind bars as of December 21. The opposition disputes these figures, however, claiming that only 10 percent of the 2,000 political prisoners have been freed.

42-43

ITALY: MORO TOPPLED

The collapse of the Moro government this week, after the Socialist Party withdrew support that had given the administration a parliamentary majority, has laid bare the deepening divisions in Italian politics. The cooperation between Christian Democrats and Socialists, that formed the basis for a succession of center-left coalitions since 1963, has been seriously disrupted and the

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continued dominance of the Christian Democrats opened to question. When the Socialists abandoned Moro on January 7, they were saying, in effect, that their relationship with the Christian Democrats must be substantially revised or abandoned altogether.

The Socialists' analysis of the developing political situation led them gradually to the conclusion that, unless they seized the initiative, their survival as a separate party might eventually be threatened. That analysis flows mainly from the Socialists' experience in two decisive political tests: the divorce referendum of mid-1974 and the nationwide local elections held last summer.

The Socialists were among the leaders in the battle to uphold legalized divorce in the referendum last year. Although most observers expected divorce to be upheld by a slim margin, Italian voters endorsed divorce by a landslide. The outcome convinced the Socialists that profound changes were taking place in Italian society and that these changes foreshadowed a shift to the left in the country's traditionally stable voting patterns.

Operating on that assumption, the Socialists began to orient their efforts toward ensuring that they would be the chief beneficiaries of such a shift. In the June regional and local elections, for example, the Socialists mounted a harsher campaign against the Christian Democrats than did the Communists. The Socialists, in essence, asked for the voters' support so that they could force the Christian Democrats to adopt reforms the latter had resisted in previous center-left governments.

Although the Socialists were not surprised by the marked turn to the left in June, they were bitterly disappointed when the Communists captured the lion's share of the new votes gained by the left. The Communist advance exceeded any the party had scored in the postwar period and

brought it to within two percent of the Christian Democrats at the regional level. The Socialists drew one clear conclusion from the election: that the Communists had profited from their opposition status, while the Socialist gains were held to a moderate level by the party's long association with the Christian Democrats.

As a result, the Socialists are now insisting that before they rejoin the Christian Democrats in government, the latter must agree to programs that would appeal to the leftist voters the Socialists are trying to capture. The Socialists also assert that any new government must consult more openly and formally with the Communists in order to associate the party more closely with government policies and thereby neutralize to some extent the advantage the Communists enjoy in electoral competition with the Socialists.

The latter condition is likely to be the major stumbling block to a new agreement. Although the Christian Democrats have shown an increasing tendency to seek Communist cooperation behind the scenes in parliament, the ruling party is deeply divided over the wisdom of dealing more openly with the Communists. A majority of Christian Democrats appear to feel that such a policy would make it difficult to avoid broader and irreversible collaboration with the Communists eventually.

In short, basic political choices are at issue rather than just a shuffling of cabinet portfolios—a fact that will make it difficult to find a way around the impasse created by the Socialist move. Consequently, a resort to early parliamentary elections is a stronger possibility than in any recent political showdown.

President Leone, who would have to dissolve parliament to pave the way for elections, is reluctant to exercise that power until the major parties go on record publicly in favor of an early contest. So far, all of the parties are publicly opposed, although some Christian Democrats and Socialists are privately urging their parties to push the situation in that direction.

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USSR: HARD-CURRENCY TRADE DEFICITS

In response to continued hard-currency trade deficits, Moscow is apparently reducing its current expenditures for industrial goods while at the same time seeking additional long-term, low-interest credits from Western governments. US industrial exports to the USSR are likely to be especially affected because they are primarily financed by cash payments or high-interest credits.

The Soviets probably consider these measures temporary. There is no indication that their longer term policy of increasing imports of high-technology Western products has been changed.

The USSR had a hard-currency trade deficit of an estimated \$4.7 billion in 1975. The deficit was covered by a combination of \$2 billion in nontrade revenues, drawings on Western credits, and a drawdown on existing cash assets. Moscow ended the year with an estimated medium- and long-term debt of about \$7 billion—up nearly \$3 billion from 1974.

This year's hard-currency trade deficit will probably be well over \$3 billion. Soviet grain imports should rise by more than \$2 billion, and existing contracts ensure a high level of equipment and steel imports. Soviet exports will remain limited by sluggish demand in the West.

Cuts in Cash Expenditures

The main Soviet reaction to current foreign exchange problems has been to trim or postpone hard-currency expenditures. Limitations on spending this year appear to be broadly applied. Available information concerns cuts in cash outlays for high-priority technology and equipment, but it seems certain that restrictions on expenditures for other goods are even more severe.

Additional Long-Term Credits

Because of the heavy demands for foreign exchange, Moscow has widened its search for long-term, low-interest credits. The Soviets have recently approached the French, Italians, and Canadians for further credits to plan equipment purchases and to determine which country's firms should be approached for specific deals.

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Soviets Temporizing

The reduction and postponement of hard-currency expenditures is a cautious approach toward meeting Soviet foreign exchange obligations. The USSR, with its solid credit rating, could rely more heavily on short- and medium-term borrowing, but it prefers not to pay high interest rates on massive short-term loans and wishes to retain its flexibility in the event of further agricultural failures.

The effect on 1976 trade of reducing hard-currency outlays will depend in part on how long import restrictions remain in effect and how broadly they are applied. These restrictions, in turn, will be influenced by the state of Western demand for Soviet goods and by the 1976 Soviet grain crop.

Restrictions placed on expenditures for machinery will have little immediate effect in most cases because of long delivery periods. Cutbacks in smaller equipment items, intermediate goods, and nonfood consumer goods will be more pronounced.

Moscow evidently hopes to weather its financial difficulties without cutting back over the long run on imports of advanced Western equipment; these imports are crucial to the success of the Tenth Five-Year Plan (1976-80). The recent Soviet overtures to several Western countries for additional credit lines for machinery and equipment support this assumption.

Growing Soviet dependence on long-term credits almost certainly will result in fewer contracts for US industrial firms. The majority placed with US firms in 1975 have been for cash.

In contrast, Soviet equipment imports from Western Europe and Japan have been backed by long-term, low-interest credits. These governments, moreover, have extended over \$11 billion in credits to the USSR since mid-1974 and will probably continue to do so.

US Share Declines

The US share of total Soviet orders placed in the West fell from 20 percent in 1973 and 1974—when contracts were often backed by low-interest Eximbank credits—to 15 percent in 1975. Soviet officials recently reaffirmed that a lack of credits will force them to purchase equipment elsewhere.

Late in December, Soviet officials said that some \$800 million in equipment for the oil industry will have to be diverted from US-based firms to their foreign subsidiaries and/or West European and Japanese firms. In another instance, US officials were informed that the bulk of orders for the Cheboksary tractor plant will be made in 1976 and that a major share of these would be placed outside the US.

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SOVIETS SPEAK OUT ON SALT

The Soviet Union, forsaking its usual public reticence regarding current strategic arms limitation issues, has recently begun to speak out on a number of SALT topics being debated in the US. The Soviets apparently hope to undercut US critics of SALT agreements with the USSR and to push Washington toward negotiating positions acceptable to Moscow. The Kremlin obviously remains interested in new SALT agreements regardless of strains and disappointments in other aspects of detente. Should SALT fall victim to "enemies of detente," however, Moscow, by putting its case on the public record, will seek to avoid any blame.

On New Year's Day, *Pravda* published an authoritative "Observer" article denying charges that the USSR had violated existing SALT agreements. Taking the offensive, the article attacked past and present US officials who have questioned Soviet compliance, accusing them of trying to frustrate detente for "various selfish political aims." The article cites statements by President Ford, secretaries Kissinger and Rumsfeld, and former secretary Schlesinger to the effect that Moscow is not in violation of existing agreements. Without offering specifics, the article implies that the Soviets themselves have questions not "fully eliminated" about US compliance. *Pravda* endorsed the US-Soviet Standing Consultative Commission as the proper place to resolve any ambiguities arising from the complex ABM Treaty and Interim Agreement.

The article concluded on a positive note, reaffirming Soviet commitment to the conclusion of a long-term arms limitation agreement based on the Vladivostok accord.

Pravda returned to the subject of SALT on January 7 in a detailed summary of a *New York Times* article by a former US official who is critical of US proposals, specifically those regarding the

Backfire bomber and cruise missiles. This piece, in an unusual departure from normal Soviet practice, refers to subjects under current negotiation. Once again, however, the Soviets attempt to shift to the US—and, in this case, "militarist elements" in the US government—the blame for any difficulties in Geneva.

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CSCE IMPLEMENTATION

The Soviets have made several new moves to comply with the Final Act of the Conference on Security and Cooperation in Europe, approved at Helsinki in August. On January 4, for the first time since the signing of the Helsinki accord, Moscow gave advance notice of a military maneuver, the most significant of the "confidence-building measures" provided for in the Final Act. The notification, which concerned an exercise scheduled to take place in the Transcaucasus Military District between January 25 and February 6, precisely fulfilled the requirements set forth in the CSCE document. The Soviets, however, have not yet invited foreign observers to an exercise. This is stipulated in another confidence-building measure that some Western and neutral nations have already implemented.

Last week the Soviets also announced an easing of travel restrictions on foreign journalists accredited in Moscow. The gesture was a response to Western concerns on the "Human Contacts" section of the Final Act which calls, in part, for liberalized travel rules for journalists. It is the first time that the Soviets have tried to come to grips with one of the more imprecise "atmospheric" provisions of the agreement, in which there is considerable latitude for interpretation by each country. Previously the Soviets had begun granting multiple exit-entry visas to journalists, as the agreement

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recommends, but this provision is less subject to interpretation. The new regulations, which go into effect on March 1, will bring the rules for travel by journalists approximately into line with those applying to diplomats. While there will apparently be no immediate reduction in the extent of restricted areas, one Soviet official hinted that some liberalization could be expected.

The Soviets, however, have suggested that even these changes will come at a price to the West. A Soviet spokesman on January 5 corrected a "misunderstanding" of the earlier announcement, saying that the new rules would require reciprocity before they would be put into effect by the USSR. This procedure would be similar to the handling of the multiple exit-entry visas, in which the Soviets negotiated arrangements on a country-by-country basis rather than granting them automatically.

The new Soviet moves indicate that, after considerable hesitation, the Soviets have arrived at a consistent policy on CSCE implementation. There is substantial evidence that until about a month ago they had not yet sorted out their priorities on this subject, particularly in the area of confidence-building measures. The Soviets seemed to be disconcerted by the speed and vigor with which the West began applying pressure on implementation and carrying out CSCE provisions, such as the notification of maneuvers.

In late December, various Soviet officials implied that a policy line on CSCE implementation had been resolved, that the Soviets intended to implement the CSCE document fully, and that some changes in Soviet law to facilitate this policy would be forthcoming. In addition to improvements in working conditions for journalists, the Soviets mentioned the possibility of an easing of requirements for family reunification. The timing of these

developments suggests that the Soviets had made a significant policy decision early in December, which was presented and ratified at the Warsaw Pact foreign ministers' meeting on December 15-16.

The decision to abide by the letter of the Final Act removes a serious contradiction in Soviet policy. Moscow has persistently sought to enshrine the conference as the major diplomatic achievement of modern European history, but this position was becoming increasingly untenable as the Soviets ignored or resisted large portions of the Final Act. In this sense, the Soviets were victims of the history of the CSCE negotiations, in which their commitment to holding the conference and winning acceptance of concepts such as the inviolability of frontiers was so strong that they eventually had to accept, at least on paper, Western ideas on subjects such as human contacts and confidence-building measures which they found somewhat distasteful.

So far, the Soviet moves on implementation have involved the activity of foreigners in the Soviet Union or obligations to foreign countries. It is unlikely that meaningful liberalization will occur in the Soviet government's control of its own population.

There are signs that the Soviets are preparing to carry the battle to the West. Previously the Soviets attacked the West for alleged failures to comply with some aspects of the conference, such as dissemination of the Final Act. Now they may begin to try to use the provisions on increasing human contacts and exchanges of information to their advantage. They reportedly plan to build a large cultural center in Helsinki, which may be followed by others in Western capitals such as Paris. In an article on January 6, *Pravda* reiterated Brezhnev's proposals for all-European gatherings to discuss environmental protection, transportation, and energy.

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Krit Siwara

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Khukrit Pramot

THAILAND: KHUKRIT STILL SURVIVING

71-73

Prime Minister Khukrit this week successfully turned aside a parliamentary challenge to his nine-month-old coalition government, but his political problems are not over.

Growing disillusionment with Khukrit's leadership among conservatives prompted retired army commander Krit Siwara and Democrat Party leader Seni Pramot to combine forces last week in a bid to bring down the Khukrit coalition by a vote of no-confidence. The seriousness of the conservative challenge was underlined by evidence that King Phumiphon was prepared to support Krit's attempt to form a new government.

Khukrit, a skillful politician, succeeded in dividing his opponents even before they could muster enough votes to call for a special session of the National Assembly to debate the no-confidence motion. He kept one political party from bolting his coalition by offering an additional seat in the cabinet, and he brought the opposition Social Agrarian Party into the coalition

by promising it three cabinet positions.

Internal discord within the opposition eliminated any remaining chance Democrat Party leader Seni Pramot may have had of forming a new coalition.

Critics of the Khukrit seven-party coalition believe that the government is already too fragmented and divided to make firm decisions to deal with Thailand's social and economic problems. The further expansion of the coalition seems likely to aggravate this condition. While the conservatives appear to have lost this round, they will almost certainly renew their challenge if Khukrit is not able to demonstrate the strong leadership they believe is required at this time.

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89-90

PANAMA: RIOT ANNIVERSARY

The commemoration in Panama of the anti-US riots on January 9, 1964, will probably be fairly quiet. No violence is expected partly because Torrijos is seeking to avoid incidents that could complicate the canal negotiations or present problems for him on the eve of his departure for a six-day visit to Cuba. While there, Torrijos will have his first meeting with Fidel Castro, and the trip will serve further to publicize Panama's struggle for sovereignty over the canal zone and to boost Torrijos' leftist credentials.

Preparations for the events on January 9 by the government, communist party, and major student groups suggest a relatively subdued affair. Disruption of the activities by radical students is possible, but their ability to organize is hampered since the school year is over in Panama. In addition, fear of retaliation by the national guard—which closely monitors the student movement—should dampen extremist appetites.

Torrijos' trip to Cuba will give his domestic critics on the left something to cheer about. Inspired in part by the country's continuing economic slump, Torrijos has been mending fences with the business community; he replaced the pro-union labor minister and proposed revisions in the heretofore sacrosanct labor code. Worried that radicals could begin to focus on apparent revolutionary back-sliding, Torrijos omitted the proposed changes in the labor code from the end-of-the-year announcement of new economic measures. He would like to mollify the left still more with his Cuban venture before proceeding with another business-oriented measure.

Torrijos is probably wary of Cuba's strength and objectives in Latin America and elsewhere in the Third World, and he assumes his actions will be closely watched in the US. Indeed, he has invited a group of US journalists to accompany him. He realizes that his chances of getting a satisfactory treaty signed and ratified by the US will be damaged if he becomes too closely associated with Castro.

Nonetheless, Torrijos faces a cunning counterpart, and Castro will be seeking support on Angola and for Puerto Rican and Belizean independence. The Cubans have successfully pressured Torrijos in the past; in 1974 Panama was backing off from establishing diplomatic relations, but the Cubans pushed the issue. There are benefits for Torrijos as well in seeking wider third-world support—which he believes can be used effectively to gain US concessions in the treaty talks. Beyond the expected revolutionary rhetoric and cooperation agreements in health and agriculture, Torrijos could find himself endorsing a Cuban move that will raise hackles in the US.

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PERU

91-94

Difficult Decisions Ahead

Serious economic problems facing the government in 1976 will continue to influence President Morales Bermudez toward a more accommodating relationship with the US. Within Peru the economic squeeze will probably bring further disruptive labor activities. The government is also likely to be faced with increasingly restive political parties that are anxious for the President to follow through on promises of a more open system.

Reduced export earnings, particularly during the last half of 1975, are a major cause of Peru's difficulties, and labor unrest has exacerbated the situation. Current and anticipated balance-of-payments difficulties contributed to Peru's willingness to compromise with the US last month in reaching an interim agreement regarding the expropriation in mid-1975 of the US-owned Marcona Mining Company facilities. These same concerns are likely to cause the government to compromise with US investors regarding development of petroleum resources and a trans-Andean pipeline. Morales Bermudez will probably come under pressure to retreat

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from this more accommodating approach, however, if other military leaders conclude that it is not yielding tangible benefits.

In the face of increasingly antagonistic labor activity, particularly by leftist unions, Morales Bermudez will probably become less willing to reach compromise settlements and more steadfast in implementing economic austerity measures. At the same time, in an effort to balance the problems posed by leftist groups, he may loosen restraints on non-communist political parties. The return to Lima this week of former civilian president Belaunde has set the stage for further political activity by his Popular Action party and the American Popular Revolutionary Alliance, Peru's other major party.

The President's economic policies are not likely to meet with serious opposition by other military leaders, and we see no serious threat to his hold on power in the near term. Debate over particularly sensitive issues, such as continued radical influence in the government, further arms purchases from the Soviet Union, and relations with Chile, however, will test the President's ability to maneuver within tightly drawn parameters.

Bolivian Access to the Sea

The announcement late in December that Chile had agreed in principle to Bolivia's demands for a sovereign corridor to the sea has placed Peruvian military leaders on the spot. In compliance with the terms of a 1929 treaty between Peru and Chile, Santiago has sought Peru's consent to such an agreement since the proposed corridor passes through land Chile took from Peru in the War of the Pacific a century ago. Both Chile and Bolivia now appear to be awaiting a response from Lima before proceeding with efforts to reach agreement on specifics.

The Peruvian government will probably attempt to delay the proceedings in order to allow Morales Bermudez time to assess military and civilian sentiment on the matter. While the President's views on this issue are not clear, there is evidence that he favors a peaceful settlement of



Morales Bermudez

the tripartite territorial problem and might argue against those officers who favor an eventual move to retake at least some of the lost territory. Any attempt to convince these officers that their views are unrealistic and would lead to serious diplomatic problems, however, will not be easy. Arguments along these lines could raise questions as to the President's nationalistic credentials, and his military and civilian critics might very well choose to exploit such a vulnerability.

In light of these problems, Morales Bermudez might claim that a military government such as the Peruvian regime could not properly acquiesce in a transfer of former Peruvian territory without first obtaining a clear mandate from the people. Any agreement by Peru, he might argue, could be given only after an election or a plebiscite, neither of which is likely any time soon. If Peru employs such an argument as a delaying tactic, Peruvian leaders probably would also maintain that the Chilean regime should consider itself under a similar restraint.

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ARGENTINA: FALKLANDS LOOM AGAIN

The Argentine government has again raised the ultranationalistic issue of sovereignty over the Falkland Islands—which it claims and calls the Malvinas. The handling of the issue seems in part designed to divert public attention away from domestic strife.

A Foreign Ministry communique issued on January 2 states that Argentina now intends to take over the British-ruled islands, which lie 400 miles northeast of Cape Horn. The strongly worded announcement, issued following a meeting between President Maria Estela Peron and her top military and foreign affairs advisers, accuses the British of refusing to discuss the issue of sovereignty in good faith.

January 3 marked the 143rd anniversary of Britain's contested ownership of the islands, and the statement was released only hours before the expected arrival of a team of British experts in the Falklands to explore possibilities for economic development—including the exploitation of potential oil deposits. A British geological study has indicated the possibility of offshore oil deposits near the Falklands, and the Argentines clearly wish to lay the basis for a claim to them.

The timing of these developments may prove politically advantageous for President Peron by providing her an emotionally popular issue by which she might recapture support—especially among right-wing military elements. The Falklands have long been a symbolic issue for ultranationalists, and the British themselves may well see Argentina's political instability as posing the most serious threat to the islands.

Economic ties between the Falklands and Argentina have steadily improved since July 1971, when Argentine and British negotiators agreed to discuss issues of common concern in the region on a regular basis. The British government, however, has refused to negotiate a transfer of sovereignty on the grounds that the inhabitants of the islands, who are almost exclusively of British descent, should have the right to determine their future status and because the majority have told Parliament of their opposition to Argentine control.

Argentina values its close economic and financial ties with the UK and is not likely to push the issue too far. Nevertheless, there already is some domestic pressure for preliminary steps toward breaking diplomatic relations. If rich oil deposits are discovered, these pressures would increase and the government itself would assume a more belligerent posture.

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CHILE

97-107

Removing The Competition

President Pinochet has tightened his grip by eliminating an important rival within the army. On January 2 the President accepted the resignation of General Arellano, chief of the national defense staff and the probable successor to Pinochet as army commander. Friction between the two has been reported for months; Pinochet had attempted to move Arellano out of the way in October by packing him off to an ambassadorial post in Spain. Arellano refused but apparently remained under heavy pressure to either take a diplomatic assignment outside the country or retire.

The popular army general was a leading planner in the move against Allende, and Pinochet may have feared that Arellano had turned to plotting against him. Despite growing criticism of Pinochet among some senior military officials, there is no evidence that such was the case. We believe Arellano will accept his fate stoically; his concern for Chile's image and army unity are likely to preclude any political maneuvering on his part.

The move has nevertheless stirred widespread speculation in Santiago that Pinochet is in trouble. A British paper has alleged the existence of a letter signed by ten Chilean generals demanding that Pinochet step down. In a special press conference on January 7, junta member General Leigh—a frequent critic of Pinochet—strongly denied that there was any

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truth to the claim, which had fingered him as the leading force behind the demand. The story is almost certainly apocryphal and may have been planted by political elements—perhaps the Christian Democrats—in hopes of weakening and embarrassing the government.

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Strains have grown within the junta recently, but they do not appear to have reached the point where Pinochet is immediately threatened. Grumbling is likely to continue among navy, air force, and carabinero leaders about Pinochet's overbearing manner and tendency to arrogate authority to himself, but it will have little impact as long as the army supports the President. Dissatisfaction caused by Arellano's departure, mostly among middle-ranking officers, should blow over soon.

The longer range threat to Pinochet will hinge on his performance in dealing with Chile's serious economic problems and its deteriorating international image. Chile's isolation, in turn, appears to be damaging efforts to brighten the economic picture and relieve the hardships caused by current austerity measures. If Pinochet is unable to turn things around on the economic front or misjudges the extent to which he can impose a personal dictatorship, he may then face greater defiance from within the armed forces.

Other Developments

In a well-publicized bid to spruce up Chile's battered image, Pinochet gave formal status to a "council of state" in a ceremony on December 31, thereby fulfilling a commitment he made in a speech last September on the second anniversary of the military take-over. The council, which is to be composed of former presidents and distinguished citizens, is supposed to be a consultative body to serve the president. Although government spokesmen apparently believe the council is an innovative democratic institution, its mandate is severely restricted; it will speak only when spoken to, the president can ignore its advice at will, and he has absolute discretion over its membership.

Two former presidents—Gonzalez Videla and Alessandri—have agreed to participate, but Christian Democratic leader Frei rebuffed the offer, saying that it would not be "honest or loyal" for him to take part in a body whose basis of origin and powers of representation were in question. Frei has grown increasingly more outspoken in opposing the regime, a course which carries a strong risk of incurring Pinochet's redoubtable anger and possible retaliation.

The government apparently intends a modest reaction to a recently published criticism of its policies by Frei, which is being circulated by hand among Christian Democrats and trusted sympathizers of the party. Pinochet probably recognizes that a harsh response at this time would merely help the faltering Christian Democrats and further damage Chile's reputation abroad. The timing would also be bad because the government is currently trying to ride out a diplomatic storm created by charges that Chilean security forces tortured a British doctor.

New Moves To Control Universities

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Restraint is not the order of the day elsewhere, however. [REDACTED] the government is engaged in a renewed attempt to centralize its control over the university system by extending extreme right-wing influence to key administrative posts. The recent naming of a retired air force colonel as rector-delegate of the University of Chile is seen as a step in this direction. At the same time, government support of the universities is being chopped sharply, and there is convincing evidence that another purge of faculty members is about to begin. Not only leftists but Christian Democrats whose loyalty to the regime is suspect are also likely to lose their jobs in a new round of politically inspired dismissals.

Government hard liners are believed to have the upper hand in the Education Ministry, and their policies can be expected to embitter those in the government who think that official influence within the educational system has gone far enough. If Christian Democrats prove to be a major target this time, Frei and others in his party may take yet another slam at the Pinochet government.

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GROWING OPEC ARMS PURCHASES

Massive orders by Iran and Saudi Arabia boosted total arms purchases by OPEC members to \$20 billion in 1974-75, more than half of which involved US suppliers. Deliveries reached \$2.5 billion in 1975 and are likely to run at about \$4 billion a year through 1980.

Because of petrodollar surpluses and the West's drive to sell arms to cover higher oil bills, OPEC arms purchases in 1974-75 were four times purchases in 1972-73. OPEC purchases now account for two thirds of developing countries' military buying.

New orders provide for across-the-board expansion of arms inventories, with emphasis on aircraft and air defense systems. Sophisticated new systems include F-14 and Mirage fighters, guided-missile systems, Spruance-class destroyers, Chieftain and AMX-30 tanks, and attack helicopters. Only with Saudi Arabia do services, such as training and base construction, constitute a large share of the orders.

With sales of more than \$10 billion in 1974-75, the US supplied more than half the OPEC arms market. Other Western suppliers furnished 35 percent; the USSR supplied 11 percent. Western Europe and, to a lesser extent, the USSR, have been emphasizing item sales rather than support packages. The US has promoted both.

Soviet participation in this market is confined largely to radical OPEC members—Algeria, Iraq, and Libya. With more than \$1.7 billion in recent arms orders, Libya is a potential resupply depot for other Arab states. Under agreements begun in 1967, the USSR sold Iran \$250 million in ground support equipment in 1974-75. This was, however, less than 5 percent of Iran's total procurement in the two-year period.

France and the UK sell to a wider market than either the US or the USSR. Paris, with 14 percent of the OPEC arms business, was second to the US in the Saudi market and also did well in six other OPEC states, notably Libya and Iraq. The 10-percent British market share came mainly from sales

OPEC COUNTRIES: ARMS ORDERS 1974-75*(Million US \$)*

| | <u>Total</u> | <u>US</u> | <u>France</u> | <u>UK</u> | <u>USSR</u> | <u>Other</u> |
|--------------------|---------------|---------------|---------------|--------------|--------------|--------------|
| Total | 19,563 | 10,358 | 2,783 | 1,871 | 2,170 | 2,381 |
| Iran | 7,795 | 5,802 | 223 | 1,274 | 250 | 246 |
| Saudi Arabia | 5,465 | 4,025 | 1,354 | ---- | ---- | 86 |
| Libya | 1,715 | ---- | 325 | 15 | 734 | 641 |
| Iraq | 1,468 | ---- | 462 | 128 | 636 | 242 |
| Algeria | 1,047 | ---- | ---- | ---- | 500 | 547 |
| Kuwait | 813 | 418 | 116 | 261 | ---- | 18 |
| Venezuela | 482 | 40 | ---- | ---- | ---- | 442 |
| Other ¹ | 778 | 73 | 303 | 193 | 50 | 159 |

1. Ecuador, Gabon, Indonesia, Nigeria, Qatar, and the UAE.

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to Iran; the UK also garnered a large portion of the orders from Kuwait and other Persian Gulf sheikdoms.

We expect arms purchases by OPEC members to run \$5 to \$6 billion a year through 1980, well below the average \$10 billion a year of 1974-75. The increased pace of deliveries will lead to greater OPEC dependence on foreign technical assistance. Saudi Arabia, Iran, and Libya lack the trained manpower to assimilate the vast amounts of new equipment.

Iran and Saudi Arabia will continue as the largest OPEC arms buyers; Kuwait and Nigeria are likely to expand their inventories at the highest rate. The US will remain the largest supplier, assuming no change in its willingness to sell to this market. Because of OPEC preference for US equipment and support packages, West European suppliers will not be able to increase their market share much beyond the present 35 percent, their strong sales efforts notwithstanding. [REDACTED]

Commercial bank credit to the developing countries has increased rapidly in recent years. The share of official and officially guaranteed debt owed to commercial banks by the 75 developing countries that are not members of the Organization of Petroleum Exporting Countries but are members of the World Bank has increased threefold since 1970, to an estimated 20 percent of the \$140 billion outstanding at the end of 1975.

Official lenders hold about 65 percent of this debt, compared to 75 percent five years ago. The proportion accounted for by trade credits also has declined, from 20 percent to an estimated 15 percent. Because commercial bank lending has filled the gap, developing country debt held by private banks now totals roughly \$27 billion, compared with \$9.5 billion at the end of 1973.

The rapid growth in commercial bank credit to the developing countries is largely the result of an expanded Eurocurrency market and increased foreign lending by US commercial banks. Slack credit demand from usual customers also raised the willingness of Western bankers to lend. Commercial banks tripled their new loan disbursements to the developing countries from \$6 billion in 1972 and 1973 to about \$18 billion in 1974 and 1975.

The data do not permit accurate calculation of the resulting debt service burden. That burden has surely increased since 1973, when principal and interest payments were equal to about 15 percent of the export earnings of these countries. We believe that principal and interest payments may now absorb 20 percent of export earnings of the developing countries.

Import controls and an increase in exports to the developed countries would lead to a slow improvement in the current accounts of developing countries this year. We estimate that the combined current-account deficit of these countries will decline to \$34 billion, compared with \$39 billion in 1975. Borrowing from official sources and net direct investment should bring in about \$20 billion and \$4 billion, respectively, leaving \$10 billion to be financed through new commercial credit. [REDACTED]

LOANS TO DEVELOPING COUNTRIES

Western bankers are looking more carefully at loan requests from developing countries as a result of some repayment problems and a huge combined current-account deficit. This caution, coupled with a likely resurgence in credit demand in the industrial economies, may limit the credit available to the developing countries.

Brazil, Mexico, South Korea, and other high-growth countries will have comparatively little trouble; their creditors are fairly confident in their future and will be protecting large outstanding loans. Arranging new loans will be more difficult for countries like Zaire whose exports rest largely on depressed commodities and whose financial policies inspire little confidence. Countries like Argentina whose economies have been seriously shaken by political disorders will face the greatest obstacles in obtaining new loans.

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IMF: OIL FACILITY MAY FOLD

The International Monetary Fund's oil facility will expire in spring 1976, barring a last-minute reprieve, because of waning financial support. The developing countries will be hardest hit.

The facility was created in 1974 to help finance higher oil import costs. Through mid-December it had provided nearly \$5.7 billion to 46 countries, with developed countries the biggest users. Eight developed countries have drawn nearly \$3.3 billion, 58 percent of the facility's total lending. Thirty-eight developing countries have borrowed nearly \$2.4 billion. India, Pakistan, Chile, and South Korea have accounted for half of the borrowing by developing states.

Members of OPEC provided 86 percent of the funding for the 1974 facility, but will have accounted for less than 65 percent when the books are closed on the 1975 facility. Uncertainty over future surpluses and commitments to other medium-term investments caused the cutback in OPEC support. Although developed countries picked up some of the slack, the 1975 facility will fall short of its prescribed maximum funding of \$6 billion.

The IMF should be able to meet applicants' requests on the oil facility at least through February. Present funding commitments, together with a \$560-million carryover from the 1974 facility and about \$790 million in funds committed "in principle," will prove adequate unless a major borrower such as Italy makes another application. The IMF expects to have requests for

\$1.6-2 billion in early 1976, including a \$1.2-billion drawing by the UK.

Continuation of the facility beyond spring seems unlikely. Many European countries would not oppose an extension, and developing countries undoubtedly would support one. We see little hope, however, for the strong OPEC support that would be necessary to continue the facility on its present scale.

- Most OPEC pledges to the facility in the past were made before the sharp decline in current-account surpluses of many oil producers, and efforts to secure a second round of commitments since midyear have had only slight success.
- The proliferation of lending schemes within OPEC has siphoned off much of the potential funding.
- Many OPEC members are disturbed about their lack of influence in lending decisions despite their major role in supplying funds.

The impact of the facility's demise on the developed countries will be blunted if the support facility of the Organization for Economic Cooperation and Development is opened before the end of 1976. The developing countries, many of which face serious financing problems, will be harder hit and can be expected to push for greater access to other forms of official credit.

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